

Remarks to the 2009 USDA Ag Outlook Forum
Global Agriculture and Rural America in Transition
The Effects of “Rural” on Agriculture – The Changing Paradigm
Funding Rural Development Programs: Past, Present, and Future
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I would like to thank the Office of the Chief Economist and all those associated with this event for the invitation to participate in the 2009 Ag Outlook Forum. It is a pleasure to be here.

I have been asked to provide some thoughts in regard to funding trends for rural development programs. This topic is timely for a number of reasons. First, less than a year ago the 2008 farm bill was enacted which provided direct spending for a number of rural development programs. Also, the Congress has very recently enacted the American Recovery and Reinvestment Act of 2009, which includes \$4.4 billion in funding for rural development. Earlier this week H.R. 1105 was filed which includes fiscal year 2009 spending for USDA and other departments and agencies. And, this morning, the Congress received the first budget document of the Obama Administration setting forth spending priorities for fiscal year 2010.

I often point out that we are in a typical budget year: one that is worse than the last but better than the next. One thing is for certain, the budget process has become far more complex than a decade or so ago when annual Agriculture Appropriations bills were signed into law prior to the August recess and omnibus appropriations acts were extremely rare. To add another level of complexity is the fact that many USDA programs, including rural development programs, are now a mixture of discretionary appropriations subject to annual budget resolutions and mandatory direct spending that flows from multi-year farm bill spending that operates outside the normal appropriations process. Add to that formula the reality that for more years than I can remember, Presidential budget requests and congressional actions have included cuts to farm bill spending in order to meet annual priority spending requirements of other USDA programs. Simple the process is not.

To try and put this into context, let me briefly outline the annual federal budget process.

In February of each year, the President submits to the Congress his budget for the coming fiscal year that begins on the first of October. This document, itself, is the product of a long process within the administration as each agency of each Department puts forward their priorities and negotiates final details with OMB which has the colossal task of balancing the interests of the entire Executive Branch and making all the numbers fit within a pre-determined cap set by the President and his advisors.

Attention then turns to the Congress as the House and Senate Budget Committees immediately begin a series of hearings on projected revenues and spending to set in place a resolution that provides the umbrella for the actual spending to be directed by the Appropriations Committees and other committees of Congress, such as the House and Senate Agriculture Committees. Under the Federal Budget Act, the Congress is supposed to complete action on the coming year's Budget Resolution no later than May 15th.

Spending levels set by the Budget Resolution take two forms: discretionary spending that falls under the jurisdiction of the Appropriations Committees and mandatory spending that generally falls under the jurisdiction of authorizing committees, such as the House and Senate Agriculture Committees.

The discretionary spending caps for the Appropriations Committee are set by what is referred to as a 302(a) allocation that provides the total for all 12 Appropriations Subcommittees, including the Agriculture Subcommittee. For fiscal year 2009, the total discretionary spending was \$1.01 trillion. The Appropriations Committee divides up that total among all subcommittees through what is known as a 302(b) allocation. This number included \$488 billion for Defense, \$153 billion for Labor and Health and Human Services programs, \$73 billion for Military Construction and Veterans, and so on. The fiscal year 2009 302(b) allocation for the Agriculture Subcommittee was \$20.4 billion. While that is a record high number, the demands of USDA programs are substantial and the Subcommittee has a tremendous challenge allocating those precious dollars among the agencies and programs that range from research to rural development, trade, food safety, conservation, and many others.

Whereas the Appropriations Committee directs spending on an annual basis, in the case of the authorizing committees spending allocations can provide for multi-year programs, such as Farm Bills that usually provide program spending over a period of five years. However, in some years, deficit projections may result in so-called Budget Reconciliation instructions as part of the annual Budget Resolution and the authorizing committees are required to report out measures that reduce previously approved spending amounts.

Through the late spring, summer, and early fall months, the Appropriations subcommittees hold budget hearings, conduct analyses of the President's budget as well as recommendations from various members of Congress. The subcommittees then report bills out of Committee, move them through the floor and into House/Senate conference committees. Upon completion of a conference committee where final decisions are made, each of the 12 appropriations bills are passed and sent to the President for signature. Further, all of this is to occur prior to the end of the current fiscal year on September 30th.

That is a quick summary of the federal budget process, at least the budget process as it exists on paper. For various reasons I won't go into here, the September 30th deadline for completion of annual appropriations bills has become in recent years more notable for the breach than the accomplishment. This year is yet another example of the

federal government continuing to operate on a Continuing Resolution that generally allows programs to function on a current services basis until the annual appropriations bill are finally complete. The current Continuing Resolution will expire on March 6th, barely one week from now.

Because for so many years the federal budget process has not strictly adhered to the schedule outlined above, it is becoming increasingly difficult to describe what a “normal” year is like. However, it is clear that what we have witnessed so far this year, especially since January 20th, is far from normal.

In response to the substantial challenges to the national and global economies, President Obama has worked with the Congress and very recently signed into law the American Recovery and Reinvestment Act. This is milestone legislation not only for its size, scope, and timing, but also for the grave responsibility it has to succeed. The Agriculture title to the Recovery Act includes nearly \$26.5 billion in budget authority that supports a total USDA program level of \$44.1 billion. While this amount may appear modest in the context of the total price tag of \$787 billion in appropriated dollars in the Act, it does represent some very significant progress in the area of rural development.

The rural development programs in the Recovery Act include a program level of \$11.5 billion for rural housing to help protect the fragile housing market in the rural sector, a program level of \$3.8 billion for the rural water and wastewater program to spur economic activity to provide not only immediate job opportunities but to secure longer-term benefits as well, and \$4.2 billion for USDA rural business and community programs.

Perhaps the most notable rural development program included is \$2.5 billion for rural broadband deployment. The revolution of the internet has transformed communications and economic activity in much of the nation in ways unforeseen a few short decades ago. However, much of that revolution is yet to occur in rural America which constitutes the bulk of the U.S. land mass. For many of the same reasons that the rural electrification programs of a generation ago forever transformed the rural landscape, the USDA role in broadband deployment responsibilities in our day hold similar promise. The funds included in the Recovery Act should serve as a jolt to invigorate the rural sector and help level the playing field among rural and urban settings for job growth and opportunity in the decades ahead. This is a tremendous responsibility and one I know USDA takes very seriously.

The Recovery Act is a monumental piece of legislation, but one well outside the scope of the regular budget and appropriations process. The fiscal year 2009 bills, now finally clearing through the Congress, present a more normal view of the current budget realities, and make apparent some of the inherent conflicts in ongoing spending bills and stakeholder expectations.

The Congressional Appropriations Committees were created in the 1860’s and charged with the Congressional responsibility of managing the transfer of funds from the

U.S. Treasury for various purposes as directed by the United States Constitution. In the agriculture sector, the Appropriations Committee maintained the primary, if not the sole, authority for directing these transfers from the Treasury. The Great Depression and the responding New Deal programs of President Roosevelt included financial support payments for farmers as a way to stabilize production and maintain the food supply. Those programs evolved into the Farm Commodity programs of today found in Title I of the 2008 Farm Bill. Because those programs took the form of entitlements and were part of a multi-year program policy tied to fluctuating market prices, the transfers from the Treasury to make those payments were made directly by provisions of the various farm bills rather than through annual appropriations bills.

However, over time farm bills began to include direct spending for programs that did not resemble entitlements but instead were essentially appropriations for “discretionary”-type programs that bore little distinction from programs previously funded only through annual appropriations bills. These Farm Bill programs were often for specific sums of money, were not tied to any multi-year or policy directive (such as the traditional farm support payments), and began to compete, in a sense, with similar programs funded through regular appropriations bills. In the 2008 Farm Bill 7 different rural development programs (including energy programs in the rural development mission area) received a total of \$1.1 billion in new spending over the 5-year farm bill period.

As a result, these and similar programs over the past several decades have been subject to annual review and, on occasion, reductions in the annual appropriations bills in order to meet other competing “discretionary” program needs of any given year. This method of meeting annual spending requirements is not simply a tool of the Congress only. It is also part of annual Presidential budget submissions including the one for fiscal year 2009, which proposed to reduce farm bill spending by \$314 million this year. One apparent and unfortunate result of this trend has been to place downward pressure on the 302(b) allocations for the Agriculture Appropriations Subcommittee. For better or worse, this pressure has been, in part, due to the perception that Farm Bill funding for similar programs is seen as available as an offset for similar discretionary programs. This is a problem that needs attention by both the executive and legislative branches in order to more efficiently and effectively allocate funds for rural development and other discretionary programs carried out by USDA.

So we come full circle again, more or less. The 2009 bills aren't quite done but should be soon, the recently enacted Recovery Act is in place with the responsibility for it now shifted to the executive branch, and, today, we receive the opening chapter of the brand new budget process. As much as things change, they do stay the same. However, we should hope, and in the context of a new Congress and a new President we have reason to hope, that regular order in the budget process returns to what it was when regular meant “normal” and “normal” was something we could all understand.

